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ABSTRACT

This paper examines the complex web of state basic and categorical aid programs in New York, with particular attention to the components of basic aid. State aid to elementary-secondary education in New York is distributed through a four-point basic-aid program and over 30 categorical programs. The first part of the paper describes the components and accompanying formulas for the basic aid program--operating aid, growth aid, supplemental support, and high tax aid. The next part summarizes the major categorical programs. A conclusion is that the state-aid system is inequitable and inefficient. A close examination reveals a system of funding riddled with guarantees and safety hatches that protect affluent school districts and distort equity costs. A major source of erosion in the equity of basic aid lies in computation of the combined-wealth ratio. The recommendation is made to streamline the basic and categorical grants-in-aid programs, which consist of an unnecessary supplemental-support aid program and an overly complicated high tax-aid program. One figure and two tables are included. (Contains 11 references.) (LMI)

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The State of New York School Finance 1993: Equity and Efficiency at the Crossroads

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Equity and Efficiency at the Crossroads

Introduction

After nearly a decade of substantial growth in the number of state dollars allocated to elementary and secondary education in New York (Crampton, 1992), the 1992-1993 school year saw a small decline due to a worsening economic climate in the state as a whole. Still, over $8.5 billion will be distributed to K-12 education this academic year. Early indications for next year's state education budget are more favorable, signaling that education will enjoy at least a small increase in funding. While policymakers and local administrators have and continue to focus on the bottom line of yearly percentage increase in aid local school districts and the overall percentage of increase in the state education budget, less attention has been paid to the grants-in-aid programs responsible for distribution of state dollars. The purpose of this paper is to examine the complex web of state basic and categorical aid programs in New York with particular attention to the components of basic aid. Concluding remarks focus on general student and taxpayer equity issues as well as administrative efficiency of New York's school funding system.

State Aid to Education in New York

State aid to elementary and secondary education in New York State is distributed through a four part basic aid program and a snarl of over thirty categorical programs. (See Tables 1 and 2.) This section of the paper will first describe the components and accompanying formulas for the basic aid program and then summarize and highlight the major categorical programs.[1]

Basic Aid

Basic aid is comprised of four components: 1) operating aid; 2) growth aid; 3) supplemental support; and 4) high tax aid.

Operating Aid. Operating aid, the largest single component of basic aid is calculated by utilizing a modified percentage equalizing formula with the remaining aid programs acting as add-ons or enhancements. The purpose of operating aid is to assist school districts with operating expenditures; hence, the following are excluded: capital outlay; debt service, food services; expenditures to Boards of Cooperative Educational Services (BOCES);[2] and tuition payments to other districts. Also excluded is transportation as it is funded by a separate, categorical program. Operating aid is based on the full value of taxable real property in a school district and the adjusted gross income of school district residents, referred to in the formula calculation as the "combined wealth ratio."

Unlike a true percentage equalizing grant, operating aid in New York has both a floor and a ceiling. Every school district, no

matter how wealthy, receives a minimum of $360 per student; in the formula, this floor is referred to as a "flat grant." In addition an "operating ceiling" of $3,761 exists; that is, no district may receive more than $3,761 per pupil. Figure 1 presents graphically the modified percentage equalizing grant.

Per pupil operating aid is the product of the operating aid ceiling of $3,761 and the "operating aid ratio," where the operating aid ratio reflects the state's share of local school district operating expenditures. The operating aid ratio is calculated as follows:

$$OAR_i = 1.000 - .64CWR_i \qquad (1)$$

where

OAR_i = Operating Aid Ratio for school district *i*
CWR_i = Combined Wealth Ratio for school district *i*

The combined wealth ratio is calculated as follows:

$$CWR_i = .5\ \left(\frac{FV_i/TWPU_i}{\$234,700}\right) + .5\ \left(\frac{AGI_i/TWPU_i}{\$80,500}\right) \qquad (2)$$

where

FV_i = Full value of real property in school district *i*
$TWPU_i$ = Total Weighted Pupil Units in school district *i*
AGI_i = Adjusted gross income of residents in school district *i*
$234,700 = State average FV/TWPU
$80,500 = State average AGI/TWPU

Full value of real property in a school district, for the purposes of the formula, is capped at 117% of the state average, or $274,599. Total Weighted Pupil Units represent weightings for half-day kindergarten (.5); secondary students (1.25); and pupils with special needs (1.25). Operating aid for 1992-1993 used either

1991-1992 TWPU or the average of the 1990-1991 and 1991-1992 TWPU for calculation. School districts with declining enrollments would find the latter more advantageous, cushioning the decline in funding.

Growth Aid. Growth aid represents an adjustment to operating aid for school districts experiencing increases in enrollment. It is the product of the percentage of growth in average daily attendance from the previous year and per pupil operating aid. Together operating aid and growth aid are held harmless in that school districts are guaranteed the greater of the sum of operating and growth aid as calculated for 1992-1993 or the previous year. Together operating and growth aid represent approximately 88% of the total dollars distributed through basic aid or $ 5.6 billion.

Supplemental Support Aid. Supplemental support aid acts as an add-on to operating aid and is an entitlement for all districts. It is computed as follows:

$$SSA_i = (\$64 + ((AA_i)(SSAR_i)))(TAPU_i) \qquad (3)$$

where

SSA_i = Supplemental support aid in school district i
AA_i = Aidable amount in school district i
$SSAR_i$ = Supplemental support aid ratic in school district i
$TAPU_i$ = Total aidable pupil units in school district i

The aidable amount is the product of .035 and per pupil approved operating expenditures. The supplemental support aid ratio is calculated as follows:

$$SSAR_i = 1.000 - .49CWR_i \qquad (4)$$

Supplemental support aid, like operating aid, has both a floor and a ceiling. All school districts are guaranteed a minimum per pupil of $174.75 with a cap of $226.50. In addition, supplemental support aid has a save harmless provision where a school district may select the greater of calculated aid from 1992-1993 or 1991-1992. In 1992-1993, $451.8 million was distributed in supplemental support.

High Tax Aid. High tax aid rewards school districts that choose to tax themselves above the statewide average and is computed with a three tiered formula. The basic formula is as follows:

$$HTA_i = (BDA)(HTF_i)(TAPU_i) \qquad (5)$$

where

HTA_i = High Tax Aid for school district *i*
BDA = Base Dollar Amount
HTF_i = High Tax Factor in school district *i*
$TAPU_i$ = Total Aidable Pupil Units in school district *i*

The base dollar amount and high tax factor vary by tier. To qualify for Tier I, a school district must have a wealth adjusted tax rate greater than 24.03 mills ($WATR_i > 24.03$) where the wealth adjusted tax rate is calculated as follows:

$$WATR_i = (UTR_i) \quad \frac{(\$234,700)}{FV_i/TWPU_i} \qquad (6)$$

where

$WATR_i$ = Wealth adjusted tax rate for school district *i*
UTR_i = Unadjusted tax rate for school district *i*
$234,700 = state average assessed valuation per TWPU
$FV_i/TWPU_i$ = assessed valuation per TWPU for school district *i*

The Tier I formula for High Tax Aid is computed as follows:

$$HTA1_i = (\$371.75)(HTF1_i)(TAPU_i) \qquad (7)$$

where

$HTA1_i$ = High tax aid for Tier I for school district i
$HTF1_i$ = High tax factor for Tier I for school district i
\$371.75 = Base dollar amount for Tier I
$TAPU_i$ = Total Aidable Pupil Units for school district i

and where

$$HTF1_i = (WATR_i - 24)/92.9 \qquad (8)$$

The Tier I high tax factor is derived by subtracting 24 mills from the school district's wealth adjusted tax rate and dividing by 92.9 mills.

School districts with a wealth adjusted tax rate of greater than 25.5 mills ($WATR_i$>25.5) are placed in Tier II where High Tax Aid(HTA2) is calculated as follows:

$$HTA2_i = (\$541.20)(HTF2_i)(AR_i)(TAPU_i) \qquad (9)$$

The base dollar amount(BDA) rises to \$541.20 at Tier II. Note also the addition to the formula of an aid ratio(AR) that is derived by subtracting 1.67 from the school district's pupil wealth ratio and subtracting the remainder from 1.000. The Tier II high tax factor(HTF2) is computed by subtracting 25.5 mills from the school district's unadjusted tax rate(UTR_i) and dividing by 8 mills, as follows:

$$HTF2_i = (UTR_i - 25.5)/8 \qquad (9)$$

School districts that have a wealth adjusted tax rate larger than 43.02 mills(WATR>43.02) are placed at Tier III, and their High Tax Aid(HTA3) is calculated below:

$$HTA3_i = (\$505.30)(HTF3_i)(TAPU_i) \qquad (10)$$

At Tier III, the base dollar amount is set at $505.30, but an aid ratio is not utilized. The high tax factor(HTF3) is calculated by subtracting 43.0 mills from the school district's wealth adjusted tax rate($WATR_i$) and dividing by 73.9 mills, or as follows:

$$HTF3_i = (WATR_i\ 43.0)/73.9 \qquad (11)$$

School districts are protected by a save harmless provision with regard to high tax aid in that they receive the greater of the calculation for 1992-1993 or 1991-1992. High tax aid accounted for $235.3 million in 1992-1993.

Categorical Aid

Tables 1 and 2 summarize categorical aid programs used to distribute state dollars to public and private elementary and secondary schools and school districts and to regional education agencies (BOCES). The categorical aid programs available to public elementary and secondary school districts include twenty-three for operating expenditure, four for capital outlay, bonds, and debt service, and four limited to New York's Five Large City School Districts. The remaining categorical grants are targeted to Boards of Cooperative Educational Services (BOCES) and private schools. The purpose of this section is to highlight the variety of funding mechanisms under which these grants-in-aid operate.

The vast majority of categorical programs are nonequalized although the may be distributed through a formula allocation or a reimbursement process. An example of the former is aid to gifted and talented programs where a simple calculation of $196 times

three percent of the school district's adjusted average daily attendance determines the allocation. The Computer Technology Aid is a reimbursement program where school districts receive up to $3.00 per pupil for the purchase of educational software. Reimbursements vary widely from flat amounts, such as the Computer Technology Aid, to percentages, such as Education of Homeless or Runaway Pupils where the reimbursement rate is 100%. Flat amounts range from $2.00 per pupil for School Library Materials Aid to $25.00 per pupil for Textbook Aid.

Those categorical grants that are equalized use differing standards. Some utilize only property wealth, such as Employment Preparation Education, a program for older students pursuing a high school equivalency diploma through a school district. All of the categorical programs limited to the five large city school districts utilize the combined wealth ratio, property and income, for their formula calculations. Of the two largest categorical aid programs, transportation and public excess cost aid (special education), the former is nonequalized while the latter is equalized to the combined wealth ratio.

Equity and Efficiency of State Aid

A surface examination New York's system of state aid to education might leave the impression of a fairly equitable system, given its progressive approach to inclusion of both property and income wealth in calculation of basic aid and the use of a percentage equalizing formula. A wide range of categorical

programs address special needs of students, from dropouts to the homeless. However, a closer examination reveals a system of funding riddled with guarantees and safety hatches that protect affluent school districts and distort equity goals. A major source of erosion in the equity of basic aid lies in computation of the combined wealth ratio where personal income is capped at 117% of the state average for the purposes of calculated aid; this amounts to a safety hatch for income rich districts. Safety hatches and guarantees are inequitable to both students and taxpayers. Scarce resources are distributed to affluent school districts that could be allocated to poor ones. Hence students in poor districts have fewer resources, and taxpayers in such districts must make a greater property tax effort. With regard to administrative efficiency, two components of basic aid deserve further scrutiny. While high tax aid comprises the smallest part of basic aid or $235 million, it is the most complex to compute. Secondly, Supplemental Support Aid serves no real purpose, and it would seem much more efficient from both a state and local perspective to fold in the allocation of $451 million into the operating aid formula. Growth aid remains a reasonable approach to assisting school districts with increasing enrollments.

While the purpose of categorical aid is to target specific needs and programs that state policymakers would like to encourage at the local level, the current snarl of over thirty programs is at best an administrative nightmare for both state and local school administrators. The inefficiency of so many categorical programs

becomes more obvious when it is pointed out that two, transportation and public excess cost (special education), comprise 75% of categorical funding with the remaining thirty programs competing for the $679 million remainder of a $2.74 billion dollar pot.

The second largest categorical programs, transportation, a one billion dollar plus program, distributes aid on a nonequalized reimbursement basis. In addition, the majority of smaller categorical aid programs are not equalized. Those categoricals that have some equalizing provision use the flawed ones of the basic aid computation and hence are corrupted. Taken together, categorical programs represent over 30% of state dollars distributed to education, and even if basic aid were properly equalized, unequalized categorical aid has the potential to counteract the equity goals of basic aid funding.

Conclusions and Implications for Policymakers

For a state like New York which has consistently ranked highly in national comparisons of per pupil expenditures, (Digest of Education Statistics, 1992) fiscal policy questions with regard to elementary and secondary education need to shift from "How much?" to "How?" New York has demonstrated a substantial commitment over time to education of children through its level of state funding. The most pressing issue appears to be the streamlining of the current basic and categorical grants-in-aid to achieve greater

equity for students and taxpayers as well as greater administrative efficiency at the state and local school district level.

The basic aid program, as well as some categorical ones, is riddled with hold harmless provisions that protect wealthy school districts. The combined wealth ratio caps income wealth, also unfairly protecting wealthy school districts. On the efficiency side, the supplemental support aid program appears superfluous, and the high tax aid program is overly complicated. Categorical aid programs have multiplied to such an extent that a thorough pruning appears in order, necessitating selecting state priorities for categorical aid more carefully, and most likely resulting in elimination and consolidation of existing programs.

Table 1

State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1992-1993 School Year

Basic Aid

Operating Aid
Growth Aid
Supplemental Support
High Tax Aid

Categorical Aid

Attendance Improvement/Dropout Prevention
Computer Hardware
Computer Technology Aids (Software)
Education of Homeless or Runaway Pupils
Educationally Related Support Services
Employment Preparation Education
Excellence in Teaching
Excellence in Teaching Grant
Gifted and Talented
Immunization Aid
Incarcerated Youth
Limited English Proficiency
Public Excess Costs
Reading
Reorganization Grant
School Library Materials Aid
Small City School District
Speech Therapy Program
Textbook Aid
Transportation
Vocational Education Equipment
Voluntary Urban-Suburban Transfer Program

Capital Outlay, Bonds, and Debt Service

Building
Building Bond Anticipation Notes
New Debt Service
Reorganization Incentive

Aid Limited to the Five Large City School Districts

Early Grade Intervention
Computer Administration
Occupational Education
Pupils with Compensatory Educational Needs

Table 2

Other Aid to Elementary and Secondary Education in New York State for the 1992-1993 School Year

Aid to Private Elementary and Secondary Schools

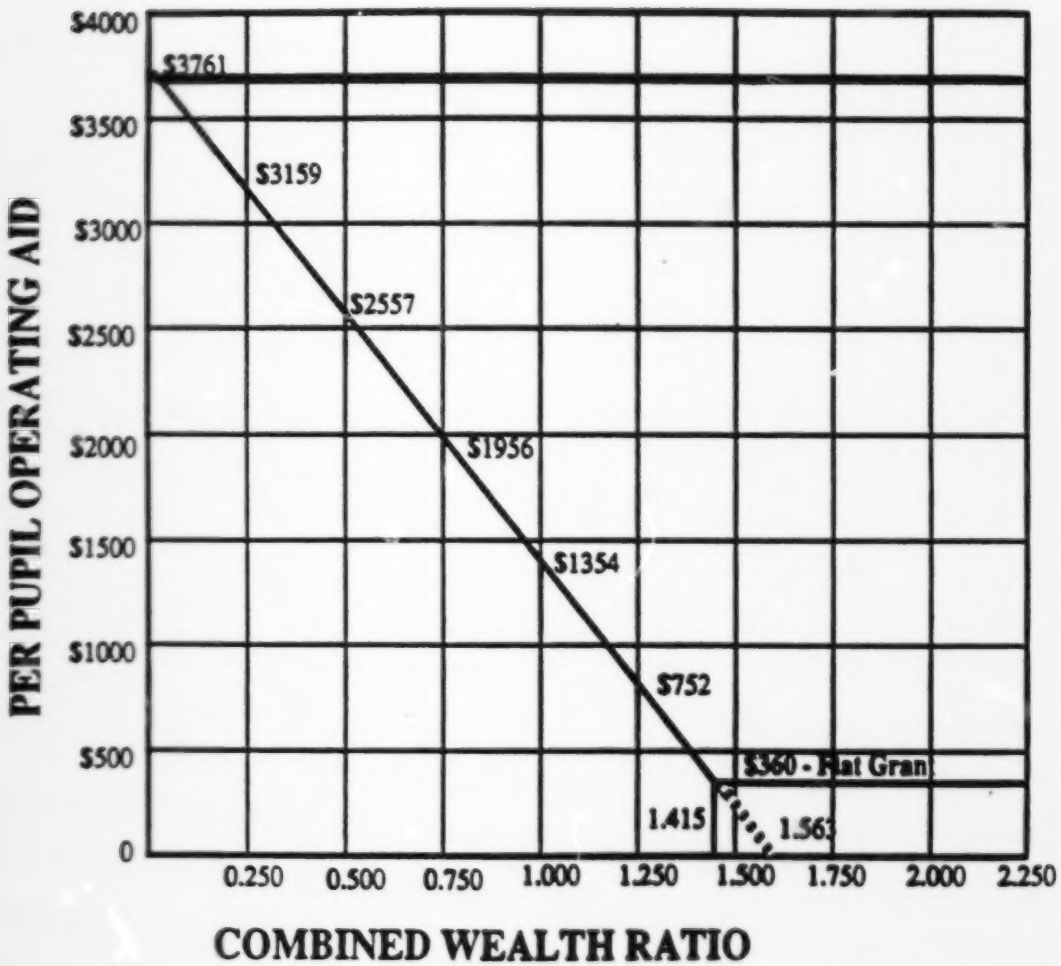
Private Excess Cost
Mandated Services
Textbook Aid

Aid to Boards of Cooperative of Educational Services (BOCES)

BOCES Aid
Excellence in Teaching
Vocational Education Equipment

Figure 1

Operating Aid: Modified Percentage Equalizing Grant



Endnotes

1. All information and computations presented in this paper were derived from information from the New York State Education Department unless otherwise noted.

2. Boards of Cooperative Educational Services (BOCES) are regional level educational units that supply services to local school districts that might otherwise be inefficient for a single school district to offer.

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